

April 11, 2011

**CITY OF JUNCTION CITY
BUDGET MESSAGE
FOR FISCAL YEAR 2011/12**

TO:

David Brunscheon, Mayor
Members of the City Council
Members of the Budget Committee
Citizens of Junction City

Overview

As Interim City Administrator, it is my pleasure to submit the Proposed FY (Fiscal Year) 2011/12 Budget for the City of Junction City for your review and consideration. When hired as the Interim City Administrator, my goal was to maintain the City's direction without major changes until a new City Administrator is hired. The budget presented for FY 2011/12 keeps that goal yet includes changes to address issues noted in last year's budget. The Proposed Budget has been prepared according to Oregon Budget Law, with assistance from City Staff and Council Committee members.

The FY 2011/12 Budget is prepared by fund. As proposed, the City has five operating funds – two governmental types (General and Street) and three enterprise types (Water, Sewer, and Sanitation). Each fund contains a resources section (beginning fund balance and current revenue), one or more expenditure appropriation types, and an ending fund balance. The Proposed Budget, while maintaining the five operating funds, reduces the number of total funds from 36 to 20, yet includes a system to track the activity of the previous year's funds in this year's budget.

The total revenue picture for the FY 2011/12 Budget is down, as a result of this being the first year the city will feel the full impact from losses of Country Coach, Gibson Motors and other viable business tax revenue. Even with the restart of Country Coach, the City will not benefit from the business tax until the following year. Due to these concerns, property tax revenue has been budgeted based on expected collections at current tax base levels rather than based on any expected increases in the tax base.

The loss is somewhat offset, because of an increase in population, licenses and permits, and franchise fees. It should be noted that there continues to be positive signals from the business community. Housing starts continue to be strong and holding steady. By the time the budget is approved, it is possible that Grain Millers will be annexed into the City. Nonetheless, the proposed budget was prepared with a spirit of cautious optimism.

The Proposed Budget establishes an Unappropriated Ending Fund Balance (UEFB) in the amount of \$1.6 million, based on a 10 year average of actual ending fund balances

of \$1,508,016. As is routinely the case, there are expenditures budgeted in a particular fiscal year which, for a variety of reasons, are not expended and are carried into the succeeding fiscal year and added into the budgeted ending fund balance. The UEFB could be an amount equal to 6 months of budgeted expenditures or a percent of all available funds. The concept is to have an agreed amount that is used to develop future year budgets. In the case of an amount equal to 6 months of budgeted expenditures or a percent of all available funds, the UEFB will increase or decrease along with the budget increases or decreases.

At the end of the FY 2011/12 year, any additional funds beyond the UEFB will be available to address the budgetary needs of the FY 2012/13 budget and/or be used to increase the UEFB. The creation of an UEFB policy will allow the Council to work with its committees and staff to address the inflationary needs of future budgets as well as the possibility of increasing the Ending Fund Balance. Future budgetary decisions will be made with a defined UEFB that the Council and City Staff can use to determine the future years' budgets.

In developing the FY 2011/12 budget, staff wanted to address the issue of a decreasing Ending Fund Balance and provide for a more stable method of dealing with the inflationary costs. Staff discussed and reviewed three options: (1) make no reductions and use a larger portion of the Ending Fund Balance; (2) reduce expenditures by \$127,000 with no reductions in staff and meet a specified Unappropriated Ending Fund Balance (UEFB) amount (based on the last 10 years of actual ending fund balances) or; (3) reduce expenditures by approximately \$350,000 which could require policy direction about opening employee contracts, reducing staff, and reducing public services. After much discussion, staff recommends the second option which establishes a base line UEFB and a process to address both the needs of continued budgetary inflationary costs as well as the need for a larger UEFB.

Budget Details

The Proposed General Fund Budget includes a reduction in Materials and Services of \$127,000 from the current budget levels. The current proposed budget provides for employee cost of living and benefit increases of \$249,000 and requires no reduction in the number of employees.

Labor costs continue to be some 74% of the General Fund operating budget and account for a major part of this year's budget increases.

Health Insurance costs have increased 17.8%, of which medical insurance increases are limited to 5% for AFSCME employees and 15% for Police employees. If allowed to continue, health insurance costs will use all the funds in the Employee Health Benefit Reserve Fund. The FY 2011/12 budget, as proposed, anticipates the depletion of this Reserve Fund and will require discussions with both employee groups by January 1, 2012 to find health benefit programs that are more affordable.

The Police contract is currently open and health insurance will be a topic of discussion. The City Administrator has contacted AFSCME and advised them of the pending loss of the fund and requested discussions to address the issue.

This year's expenditure budget for all funds, excluding the DOC-IGA Infrastructure Fund and transfers, but including major capital outlay, is \$11,346,287. The DOC-IGA Infrastructure Fund has been separately budgeted at \$5,912,646. Expenditures for the five major operating funds account for an increase of \$73,715 or a 1.35% increase from last year.

The General Fund expenditures for the coming year are budgeted at \$3,361,217 or a 5.16% reduction from the current year. General Fund revenues are estimated to come in at \$3,128,760 or an approximate \$312,876 reduction. The remaining operating funds are essentially balanced between expenditures and revenues. The implementation of the Unappropriated Ending Fund Balance will mean that in FY 2012/13 there will be a \$1.6 million Beginning Fund Balance plus any unexpended funds for FY 2011/12.

For the most part, there will be few changes in the General Fund this year. Staffing will increase by .25; however, there will be no increases in the number of personnel in the General Fund. The .25 increase in FTE will be covered by an increase in fee-supported activities such as anticipated growth in fines from improved Court collections and increased traffic enforcement. This increase, along with a reduction in the need for overtime, will more than cover the increased FTE.

The Community Services Department operates on a Cost Recovery Model across the four functional areas of Viking Sal Senior Center, the Community Services Center, the Max Strauss Pool, and the Junction City Public Library. A Cost Recovery Model focuses first on efforts to establish fees, donations, fundraising, and revenues to recover direct Materials and Services (M&S) costs. Personnel costs are a secondary recovery effort and some of the functional areas recover a percentage of personnel costs. In the Community Services Department, unrecovered M&S and personnel costs are supported by the General Fund. The Department is not proposing any additional personnel funded from the General Fund and is increasing M&S cost recovery. The M&S costs are recovered through subsidized, partially subsidized, and non-subsidized community services. The determination of cost recovery level is based on community benefit, access, type of service, organizational responsibilities, historical expectations, anticipated impacts, and social value. The Department goal is to increase cost recovery in innovative ways that stabilize services.

The Viking Sal remains at 100% cost recovery of M&S budget and makes a transfer to the General Fund representing 20% of wages of the Program Lead position. The Viking Sal budget adds a .38 Admin Specialist position with a full contribution to cost through an Intergovernmental Agreement and operation revenues. The Community Services Center is unchanged at approximately 92% cost recovery of M&S budget and makes a 100% contribution to seasonal personnel through operation revenues. The Community Services Center budget proposes a \$5,000 transfer from State Revenue Sharing and no

transfer from the General Fund. The Max Strauss Pool revenues have been increased to reflect past averages and the proposed operations of the pool improve from a budgeted 60% cost recovery of M&S to a proposed 100% cost recovery of M&S. The Junction City Public Library M&S costs have been reduced and revenue increased slightly to improve from a budgeted 20% cost recovery of M&S to a proposed 27% cost recovery of M&S.

The Planning & Building Department proposed budget remains mostly the same, with no changes in personnel or service levels. Between 2009 and 2010, the City experienced a 3.7% increase in population growth, the largest percentage increase of all cities in Lane County, and the department expects permit activity to stay fairly steady. Revenues are forecasted differently this year and are based on activity levels at 70% of actual permit activity from the last fiscal year, including the construction of 40 new single family homes. Land use permit activity is also expected to remain roughly the same, with smaller commercial development projects.

Long range planning projects for this fiscal year include the completion and adoption of the UGB Analysis and expansion for commercial and residential lands and the completion of a Local Wetlands Inventory. The City is also undertaking a much-needed Transportation System plan Update which has been funded by ODOT. This project is expected to be completed and adopted in 14 to 16 months. With these planning efforts completed, the City should be well poised for many years to come to accomplish its goals and take advantage of opportunities that present themselves.

Enterprise Funds

There will be no significant changes in the operations in any of the enterprise funds. There are two temporary project positions proposed in this budget, due to the potential water line replacement project proposed to be completed by City Staff. These positions are only for the duration of the project.

We will also see continued high-level contributions to the Water System Improvement Fund and the Wastewater System Improvement Fund, consistent with the needs to build up reserves and in anticipation of major capital improvements to come.

The Street Fund will see an increase in planned expenditures, as proposed capital improvements are less limited in the upcoming year. This is mainly due to reimbursement of grant funds from the Oregon Department of Transportation for the 6th Street Project. The Fund anticipates expending approximately \$75,000 in new Street Refurbishment/Improvements and \$25,000 for sidewalks.

The Sanitation Fund will see a significant increase in transfers to the Equipment Reserve Fund. This is due to the increasing replacement need of the existing garbage truck fleet.

The DOC-IGA Infrastructure Capital Project Fund has \$5,912,646 budgeted to complete

current contract work and the balance of the project work scheduled under the current \$24.8 million intergovernmental agreement with the State. The current Legislative Session has a significant impact on the funding for both the DHS Mental Hospital and the DOC State Prison. The entire balance of the project's unspent funds has been deposited with the City and is included in the project's beginning fund balance.

On-Going Projects

There are a number of other significant initiatives in the planned budget. The City hopes to begin, if not complete, development of the first park in a number of years to serve the southwest quadrant of the City. We continue to put effort and resources into the hoped for development of a skate park. Funds have also been set aside again this year to make long awaited improvements at Bergstrom Park. We are also looking to make some facility improvements to allow for further work at the Community Service Center and perhaps at the Q-Hut to provide some flexible space for the Police Department. Other alternatives are being considered as well

The City will be upgrading its financial management software this year; an effort that should assist us in meeting the auditor's management recommendations.

The City continues to be relatively debt-free. There are no outstanding bonds and the only remaining debt is a lease for police vehicles with a balance of \$84,770, and \$66,900 due in the utility funds for garbage totes and water meter equipment.

As Interim City Administrator, I want to thank the management staff for their work on putting this Proposed Budget together. It was not an easy task but with the help of all, I feel comfortable in recommending the FY 2011/12 budget for your consideration.